

Message Text

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C O N F I D E N T I A L LIMA 9040

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TAGS: BDIS, OVIP, ECON, PE

SUBJECT: GREENE NEGOTIATIONS - DISCUSSIONS WITH

MINISTRY OF FINANCE TEAM ON CERRO, GRACE

AND FISHMEAL COMPANY CLAIMS

REF: LIMA 9003

1. AS INDICATED REFTEL, DCM AND EMBOFFS MET WITH FINANCE MINISTER MORALES BERMUDEZ AND SEVERAL OFFICIALS OF HIS MINISTRY DECMEBER 10. MINISTER DEISGNATED A TEAM TO WORK WITH EMBASSY FOR DETAILED REVIEW OF FINANCIAL DATA RELATING TO CERRO, GRACE AND FISHMEAL COMPANIES. TEAM IS HEADED BY COL. JOSE VILLAFUERTE, DIRECTOR GENERAL OF CONTRIBUCIONES (TAXES), AND INCLUDES SENIOR OFFICIALS OF MINISTRY'S OFFICE OF FOREIGN ECONOMIC AFFAIRS, BANCO CENTRAL AND BANCO DE LA NACION. MINISTER MORALES BERMUDEZ STRESSED NEED FOR BOTH PARTIES TO GIVE TOP PRIORITY TO MATTER, AND INSTRUCTED HIS TEAM TO COOPERATE CLOSELY WITH EMBASSY IN DEVELOPING DATA.

2. MORALES BERMUDEZ ALSO MADE FOLLOWING TWO GENERAL POINTS.

(1) REMITTANCES UNDER ANY EVENTUAL AGREEMENT WOULD BE NET OF TAXES. REMITTANCES MADE FOR PURCHASE OF PROPERTIES, SUCH AS CERRO AND GRACE, WOULD BE MADE PURSUANT TO AGREE-
MENT BETWEEN GOVERNMENTS, AND WOULD OF COURSE BE FREE OF TAXES. REMITTANCES MADE FOR SUCH ITEMS AS PROFITS, DE-
PRECIATION, ETC., WOULD BE NET OF TAXES BY THEIR VERY
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NATURE, SINCE ANY TAXES WOULD HAVE BEEN PAID BEFORE RE-

MITTANCE WAS APPROVED BY GOP. (2) IN CALCULATING RE-MITTANCES TO BE MADE FOR SUCH ITEMS AS PROFITS, DEPRECIATION, INTEREST, ETC., GOP WOULD BE GUIDED BY CRITERIA OF PERUVIAN LAW, AND COMPANIES WOULD RECEIVE NO MORE THAN THAT TO WHICH THEY ARE LEGALLY ENTITLED.

3. WITH RESPECT TO METHODOLOGY OF CERRO TRANSACTION, FINANCE MINISTER SAID HE FORESAW CERTAIN PRATICAL PROBLEMS. WHILE HE AGREED THAT EXCHANGE OF PAYMENTS SHOULD TAKE PLACE SIMULTANEOUSLY GVPME., THAT CERRO SHOULD RECEIVE PAYMENT FROM GOP SIMULTANEOUSLY WITH RETURN OF FUNDS CERRO IS NOW HOLDING IN NEW YORK) THERE WOULD BE NO WAY OF KNOWING HOW MUCH CERRO WAS DUE IN 1973 PROFITS, ETC., UNTIL AT LEAST SIX WEEKS AFTER END OF YEAR. THE MINISTER GAVE NO INDICATION OF HOW HE THOUGHT THIS MATTER MIGHT BE RESOLVED, EXCEPT TO SAY THAT MOST OF FUNDS MIGHT BE PAID AT THE TIME OF SETTLEMENT AND THE BALANCE, SAY SIX WEEKS LATER AFTER FISCALIZACION OF AMOUNT INVOLVED.

4. DCM AND EMBOFFS MET WITH TEAM HEADED BY VILLAFUERTE FOR TWO HOURS ON MORNING OF DECEMBER 11. SUBJECTS DISCUSSED WERE AS FOLLOWS:

A. CERRO DE PASCO - COL. VILLAFUERTE EMPHASIZED AT OUTSET THAT HIS PARTICULAR OFFICE IS CONCERNED WITH FOREIGN EXCHANGE TRANSFERS ONLY INsofar AS THEY RELATE TO PROFITS, AMORTIZATION AND DEPRECIATION. FOREIGN EXCHANGE TRANSFERS RELATING TO LOANS, SALARY PAYMENTS, ETC., ARE THE RESPONSIBILITY OF THE OTHER OFFICES REPRESENTED. VILLAFUERTE SUBSEQUENTLY STATED THAT, WITH ONE EXCEPTION, HIS TEAM HAS SUFFICIENT DATA ON HAND TO REACH A DECISION ON HOW MUCH CERRO WOULD ULTIMATELY BE ENTITLED TO IN WAY OF TRANSFERS. EXCEPTION HAS TO DO WITH AMOUNTS OF FOREIGN EXCHANGE REMITTED BY CERRO NEW YORK FOR PAYMENT OF EXPATRIATE SALARIES, AND EMBASSY UNDERTOOK TO OBTAIN THIS INFORMATION FROM CERRO DE PASCO. VILLAFUERTE CONTINUED THAT, WHILE TEAM'S REVIEW OF CERRO DATA WAS NOT COMPLETE, HE WAS IN POSITION TO MAKE TWO POINTS. FIRST, ANALYSIS OF DATA COVERING PROFITS, CONFIDENTIAL

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DEPRECIATION AND AMORTIZATION THROUGH THE END OF 1972 REVEALED THAT, RATHER THAN CERRO BEING DUE \$3 MILLION FOR PROFIT REMITTANCES, CERRO ACTUALLY OWED THE GOP \$0.9 MILLION. THE COMPANY HAD BEEN INFORMED, AND IF IT CHOSE COULD SUBMIT AN APPEAL TO THE MINISTRY. SECOND, A TAX AUDIT SHOWED THAT CERRO OWES AN ADDITIONAL \$7 TO \$8 MILLION IN TAXES FOR 1972. FINALLY, ALMOST IN AN ASIDE, VILLAFUERTE SAID THE MINISTRY WAS CONTINUING TO

STUDY THE MATTER OF THE \$17 MILLION LOAN FROM CERRO DELAWARE TO CERRO DE PASCO. IN VIEW OF THE CLOSE RELATIONSHIP BETWEEN THE FIRMS, THE TRANSACTION APPEARED TO THE MINISTRY TO BE AKIN TO A CAPITAL TRANSFER, RATHER THAN A LOAN. HENCE, WHETHER ANY REMITTANCES COULD BE MADE ON THIS ACCOUNT IS QUESTIONABLE. THE MINISTRY HAD NOT YET REACHED A DEFINITE CONCLUSION.

B. FISHMEAL COMPANIES - VILLAFUERTE ASKED THAT THE EMBASSY OBTAIN DETAILED REPORTS FROM THE FISHMEAL COMPANIES COVERING THEIR APPLICATIONS FOR REMITTANCE OF FUNDS. THE EMBASSY UNDERTOOK TO DO SO (AND RESUME WILL BE SUBMITTED BOTH TO MINFINANCE WORK GROUPS AND MINFISHERIES TANTALEAN.

C. GRACE - VILLAFUERTE ALSO ASKED FOR A DETAILED REPORT COVERING THE AMOUNTS OF \$3.2 MILLION AND \$2.2 MILLION RELATING TO REMITTANCES FOR MINSUR, GODC, ETC. THE EMBASSY AGREED TO SEEK AN UP-TO-DATE REPORT FROM GRACE.

5. COMMENT: BOTH MEETINGS WITH MINFINANCE TEAM WERE CORDIAL, BUT THE EMBASSY IS UNCERTAIN AS TO THE MINISTRY'S INTENTIONS WITH RESPECT TO CERRO. DECISION-MAKING ON THE VARIOUS ELEMENTS OF THE CERRO REMITTANCE PACKAGE IS OBVIOUSLY DIFFUSED AMONG THE VARIOUS ELEMENTS OF THE FINANCE MINISTRY TEAM, AND WE DO NOT BELIEVE THAT IN SUCH A FORUM WE CAN USEFULLY DISCUSS MATTER IN TERMS OF OVERALL FIGURE. MINISTRY'S PRESENT INTENTION APPEARS TO BE TO APPROACH TOTAL FIGURE IN PIECEMEAL FASHION, JUDGING EACH ELEMENT ON ITS INDIVIDUAL MERITS. IN THIS CONTEXT
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